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SUBJECT: Finance Minister Zakhilwahl on Assistance Priorities
and Post-election Economic Reforms

Ref: Kabul 2002

SUMMARY

¶1. (SBU) Afghan Finance Minister Omar Zakhilwahl confirmed to USAID Mission Director William Frej his commitment to post-election economic reform and listed as priorities the restructuring and gradual privatization of state-owned Ariana airline and merging Pashtany and Mille banks. He is concerned about predatory anti-competitive practices of some larger private-sector companies including airlines, and asked for USAID technical assistance to develop competition policy capacity and appropriate anti-trust legislation. Zakhilwahl wants to move ahead on insurance sector regulatory reform to provide greater safeguards for investors. To enhance revenue collection and improve Afghanistan's prospects for fiscal sustainability, he vowed to continue his battle against customs sector corruption, despite significant political pressures from Parliament. Frej outlined USAID's newly awarded \$90 million Economic Growth and Governance Initiative (EGGI) and confirmed U.S. support for the Civilian Technical Assistance Plan (CTAP), a new multi-donor pilot program providing a direct transfer of resources to the Ministry of Finance to allow MOF to manage its own technical assistance (Reftel). End summary.

ANDS IMPLEMENTATION AND OUTREACH BEYOND KABUL

¶2. (SBU) In an August 8 meeting with Afghan Minister of Finance Zakhilwahl, USAID Mission Director William Frej announced the award of the new USAID Economic Growth and Governance Initiative (EGGI) to BearingPoint/Deloitte. This new program will provide support for national and regional economic policy development, central bank supervision, and business-enabling environment reforms. The Minister and Frej agreed that international and local Finance Ministry advisors funded under EGGI will broaden their portfolios to support not only the Minister's Office, but also the Ministry's Policy Unit and its Afghanistan National Development Strategy (ANDS) implementation Unit.

¶3. (SBU) The EGGI program will support the implementation of recently adopted financial and commercial laws that will

translate into increased access to finance through development of mortgage, secured transactions for movable property, and leasing products. EGGI will also address the ANDS priority of extending outreach to provincial economic centers to help connect Afghanistan's regions with the center, including through expansion of a new streamlined business registration process which makes it easier for businesses to register and will encourage their participation in the formal economy. The Minister highlighted the challenge of providing appropriate financial incentives and logistical support to encourage Afghan government officials to work in the more difficult regions of the country. Eventually, he said, the Ministry of Finance will need to incorporate logistical costs into its budget planning to avoid dependency upon external programming. EGGI will help GIROA to provide services (not just exercise authority) to better connect provinces with the center. The program will also look to tie its efforts with other stabilization programs on the ground.

PERSPECTIVES ON PRIVATIZATION AND STATE-OWNED ENTERPRISES

14. (SBU) Zakhilwahl noted his support for the eventual privatization of state-owned flag carrier Ariana Airlines, and Frej updated the Minister on USAID's current work reviewing Ariana Airlines' financial statements to better inform the Ministry of the airline's financial status. Frej thanked Zakhilwahl for his support in overcoming Ariana management's resistance to providing this information. A final USAID report on Ariana's financials will be shared for discussion in the coming weeks.

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15. (SBU) On restructuring Afghanistan's two remaining state-owned banks, Zakhilwahl said that Bank Millie has capable management but that: a) management of Pashtany would be removed following the election; b) merging the two state banks is his personal preference; and c) opening up ownership of the state banks to private sector investment in the coming year is the best way to facilitate a gradual transition to private sector leadership. Zakhilwahl noted, however, that Parliament remains supportive of "national" banks and will likely seek to maintain state participation in this sector.

16. (SBU) On competition policy, Zakhilwahl said he was concerned about "predatory" practices by some private sector companies, in particular Pamir Airlines. Pamir currently prices tickets from Kabul to Dubai at around \$100, significantly below a market break-even in the \$200 range, he said. This practice could drive competitors out of air transport business and weaken Afghanistan's airline sector. (Note: Minister of Commerce Shahrani has expressed similar concerns to USAID officers. The EGGI program can provide technical support to promote competition-policy capacity building and the development of appropriate anti-trust legislation.)

17. (SBU) Afghanistan's insurance sector includes one private company and one state-owned company. Zakhilwahl said he did not see parliamentary opposition to the eventual privatization of the state insurance company. He welcomed USAID assistance with insurance regulatory reform and to moving the Insurance Commission out of the Ministry of Finance to structure it as an independent entity. Support for the regulatory reform of insurance and other sectors such as mining, building on the reform success in the telecom sector, is included in the EGGI project design.

BATTLING CORRUPTION IN CUSTOMS

18. (SBU) In the area of customs reform and related revenue generation, Zakhilwahl anticipated greater political support for broadening Afghanistan's tax base after the elections. While Parliament supports customs reforms in concept, he said, many members benefit from the current system of "variable enforcement," and so often lobby the Minister for individual

exceptions and exemptions from payment of customs duties. The Minister noted his recent removal of the Deputy of Customs in Nimroz province in southwestern Afghanistan which sees considerable trade with Iran but reports "unusually low" tariff collections. Zakhilwahl said that he has faced significant political pressure to reverse this decision but that he has been able to uphold it. Frej and Zakhilwahl discussed possible mechanisms to hold Parliament to higher ethical standards including the potential to encourage Parliamentarians to comply with regulations that require senior government officials to declare assets. While Zakhilwahl anticipated leeway for bolder action following the election, he noted that Ministers require Parliamentary confirmation before assuming their appointments or reappointments.

STATUS OF CIVILIAN TECHNICAL ASSISTANCE PLAN

¶9. (SBU) Frej informed Zakhilwahl that the U.S., in concert with the United Kingdom's Department for International Development (DFID) and the Canadian International Development Agency (CIDA), are prepared to quickly mobilize resources to support implementation of the Civilian Technical Assistance Plan (CTAP). CTAP responds to the GIROA's request for expanded technical advisory (TA) support. This plan would recruit and place TAs in ministries throughout Afghanistan using a two-pronged approach. The first step is to place 55 urgently needed TAs in ministries quickly using existing mechanisms. The second step is to create a new National Capacity Development and Technical Assistance Program (NCDTAP) to help ministries prepare additional TA requests and provide

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a basket funding mechanism to which donors could contribute. The NCDTAP would identify the TA necessary for implementation of the Afghanistan National Development Strategy (ANDS) and aim to place an additional 500 - 1,000 advisors at the national and sub-national levels.

¶10. (SBU) At the 12th Joint Coordination Monitoring Board (JCMB) meeting on July 8, 2009, donors expressed support for GIROA efforts to prioritize its technical assistance needs and take ownership of the planning and deployment of technical assistance. A new Secretariat will be established within the Ministry to manage the multi-donor pilot program that will channel direct assistance of \$30 million through the Ministry of Finance over the next two years.

COMMENT

¶11. (SBU) This decision maximizes "Afghanization," critical to President Obama's new strategy, and allows the GIROA to take the lead in the recruitment, hiring, placement, and management of these advisors with the appropriate oversight of the USG. Specifically, the USG would help the MOF cost out the plan, agree on a multi-donor/UNAMA management committee to assist with the development of position descriptions, assist with placement in the ministries, publish a solicitation, participate in the selection of the advisors, oversee performance, and transfer the funds to the MOF. This GIROA-led pilot program does not preclude hiring U.S. advisors as part of the technical assistance team. (Reftel)

ZAKHILWAHL

¶12. (SBU) Widely viewed as one of the Karzai administration's most competent Ministers, Omar Zakhilwahl expressed confidence that he would remain in his position should President Karzai win re-election. During his six-month tenure as Minister, Zakhilwahl has demonstrated both clarity of conviction and the ability to turn implement his organizational vision. His new revenue action plan, bold steps to combat corruption, and support for a vibrant private sector make credible his role to press ahead a valuable reform agenda. If re-appointed in a follow-on administration that wins a first or second round solid majority, he should be well-positioned to help place the

right people in the right jobs as well as to promote reform. Regardless of who assumes the position of Finance Minister, ongoing USAID Economic Growth and Governance Initiative programmatic support has laid a strong foundation to work with the new GIROA administration.

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